2001 Country Reports on Economic Policy and Trade Practices
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SAUDI ARABIA

Key Economic Indicators 1/
(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 2/
Income, Production and Employment:			
Nominal GDP	139.2	168.8	170.5
Real GDP Growth (pct)	0.4	4.5	1.0
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing (including oil)	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,505	7,743	7,564
Labor Force (millions)	7.2	7.8	7.8
Unemployment Rate (pct)	N/A	14	15
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.2	5.9	2.2
Consumer Price Inflation	-1.2	-1.0	0
Exchange Rate (SR/US$ annual average)			
Official	3.745	3.745	3.745
Balance of Payments and Trade:			
Total Exports FOB	50.7	79.0	N/A
Exports to United States	8.2	14.2	8.6
Total Imports FOB	25.7	27.8	N/A
Imports from United States	7.9	6.2	4.0
Trade Balance	25.0	51.1	N/A
Balance with United States	0.3	8.0	N/A
Current Account Deficit/GDP (pct)	-2.8	8.8	2.3
External Public Debt	30.4	28.9	N/A
Fiscal Deficit/GDP (pct)	-6.5	7.1	1.2
Debt Service Payments/GDP (pct)	5.1	5.0	N/A
Gold and Foreign Exchange Reserves	15.7	18.2	15.2
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

1/ Sources: IMF International Financial Statistics Yearbook 2001; Saudi-American Bank Mid-Year 2001 Update; IMF Saudi Arabia Statistical Index; Saudi Arabian Monetary Agency, Thirty-Sixth Annual Report, 2000; U.S. Department of Commerce; OECD.
2/ 2001 figures are projections. Exports and imports with United States are for the period January-July 2001.

1. General Policy Framework

Saudi Arabia's leadership is moving towards establishing a free market economy. Although parastatals still dominate economic output, there has been some movement by the Crown Prince to open up the economy to foreign investment and level the playing field for foreign investors.

Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government emphasizes that its development plans rely on significant private sector involvement. The Council of Ministers approved the country's seventh Five-Year Plan on August 28, 2000. Highlights of the new plan include achieving an average annual GDP growth of 3.1 percent (the private sector is expected to grow at an average annual rate of 5 percent), promoting further diversification of the economy away from its heavy reliance on the oil sector, and providing employment to a growing number of Saudis entering the job market.

The Saudi government is making some efforts to bring its trade regime in line with the standards required for accession to WTO. Saudi Arabia's Council of Ministers approved a new Foreign Investment Law on April 10, 2000, which should make it easier for foreign companies to establish themselves in Saudi Arabia. The law establishes a framework for future legislative and regulatory activities to improve the foreign investment climate in the country and has established minimum levels of investment for agricultural products ($US 6.6 million), industrial products ($US 1.3 million), and non-industrial products ($US 533,000). The Saudi Arabian General Investment Authority (SAGIA) has been established to manage investments under the new code and has approved more than 200 new licenses for projects valued at more than $US 8.5 billion. SAGIA developed a negative list of 22 areas in the industrial and service sectors off-limits to foreign investment.

The energy and public sectors are the primary engines of growth in the Saudi economy. Spending by parastatal enterprises, such as Saudi ARAMCO (oil) and Saudi Basic Industries Corporation (SABIC - petrochemicals), and the Saudi Electricity Company (SEC), have a major impact that reverberates throughout the economy. Although Saudi Arabia traditionally has allocated a significant portion of spending to purchase of advanced military hardware, the share of defense spending has declined over the last two years.

In 2000, oil sector revenues comprised 35 to 40 percent of GDP, and more than 75 percent of budget revenues. Other government revenues, including customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom in 1973, Saudi Arabia maintained annual budget surpluses until 1982, when the decline in oil prices led to a renewed budget deficit, a situation that continued until 1999. Oil prices rebounded in 1999 and 2000. The budget deficit was reduced to four percent of GDP in 1999 and then moved back into surplus in 2000-2001. Internal public sector debt declined from 120 percent of GDP in 1999 to 94 percent of GDP in 2000.

The Saudi government has invited the international oil majors to invest in developing local supplies of natural gas to supply power generators, water desalination facilities and petrochemical plants. Total investment in three core ventures is set to reach $25 billion over a ten-year period, with Exxonmobil serving as the leader in two of the three ventures. Although the commercial terms for the deal have yet to be finalized, investment plans are proceeding apace and are expected to have a major impact on the Saudi economy.

Privatization also received a boost in 2001 when the government announced in May 2001 its intention to permit foreign investment in the telecom sector. Telecom industry experts estimate that over $10 billion in investment will be needed over the next few years to meet market demand. When exactly the government intends to open the sector to private investment remains unclear. The government announced a new regulator for the industry, the Saudi Telecom Authority (STA), but questions still remain as to the degree of its independence. The Government owned monopoly Saudi Telecommunications Company (STC) is valued at approximately $15 billion and has annual revenues of about $4 billion.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills as required. There is a limit to the amount of bonds that can be repurchased. In January 1999, the United Saudi bank merged with the Saudi-American Bank (SAMBA), leaving a total of ten commercial banks (including one Gulf Cooperation Council [GCC] bank). All ten banks have majority private ownership, with the exception of National Commercial Bank (NCB). NCB sold 50 percent of its shares to the government-run Public Investment Fund (PIF) as part of a change of management and ownership. The government intends to sell back the shares as the local capital markets are able to absorb them.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian Riyal is SR 3.745 = $1.00. This rate has remained unchanged since 1986. There are no taxes on the purchase or sale of foreign exchange.

Generally speaking, there are few foreign exchange controls for either residents or nonresidents, in keeping with the government policy to encourage an open economy. Of the few restrictions, the most noteworthy are: direct commercial transactions with Israel and Israeli-registered corporations are prohibited, as are most transactions with Iraq; and local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions without prior SAMA approval.

3. Structural Policies

Regulatory Policies: The government maintains price controls for many utilities and agricultural products. Petroleum products and feedstocks for petrochemical industries are provided at below world market pricing, presumably reflecting very low taxes and discounts for lower costs in production and transport. Agricultural subsidies were dramatically curtailed in the early 1990s and have been reduced in recent budgets, in line with the government's deficit reduction plans and its goal to reduce water consumption. In an ongoing attempt to increase and diversify its revenue sources, the government raised electricity rates, introduced an airport tax for departing expatriates, and doubled its visa fees in 1999.

Tax Policies: The Saudi Arabian government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most revenue. Saudi nationals pay no income tax, but are obliged to pay "zakat," a 2.5 percent Islamic assessment based on net wealth (not income). Zakat is designed to support the Islamic community (e.g., schools, support for the indigent). Saudi-owned businesses do not pay corporate tax beyond the "zakat." Foreign companies and self-employed foreigners pay an income tax, but not zakat. Saudi Arabians are not taxed on income. The new foreign investment law does not directly address taxation issues. However, the Saudi Minister of Finance and National Economy has stated that the Saudi government will rebate 15 percent of corporate taxes imposed on foreign companies that have an annual profit of more than $26,667. This would thus reduce the maximum corporate tax rate to 30 percent. This scheme, however, will only take effect once the current tax regime is revised. In addition, the new law does not provide for tax holidays, which were featured in the provisions of the old law. Instead, the new text code will include loss carry-forward provisions without any time limits. In contrast, U.S. provisions usually have a 15-year limit on loss carry-forwards. Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties. The Government reportedly is studying the introduction of personal income and value added taxes as a means to broaden revenues.

The GCC states agreed in November 1999 to form a customs union by 2005. In doing so, the GCC states agreed to harmonize the tariff rates applied to trade from non-GCC countries by that date. They agreed to rates of 0, 5.5, and 7 percent. In the summer of 2001, Saudi Arabia announced an across-the-board tariff rate reduction to 5 percent on most products, down from 12 percent. In mid-October 2001, the GCC announced that it will redraft the tariff agreement to meet the Saudi rates and will push forward the date of implementation for the customs union to 2003.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. In 1999, SAMA managed foreign assets of roughly $54 billion and an estimated $29 billion for autonomous government institutions, including the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $11.4 billion.

Government domestic borrowing has a short history in Saudi Arabia. The government began borrowing to finance budget deficits in 1987 by selling government development bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed almost entirely to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, exceeded 120 percent of GDP at the end of 1999. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a priority for the government and there are indications that additional oil revenues in 2000 were being used to help pay down this debt.

Non-governmental external debt stood at $28 billion in 1998, up from $16 billion in 1996. This debt is serviceable, especially in light of improved oil revenues.

5. Significant Barriers to U.S. Exports

Saudi Arabia is currently in the process of negotiating accession to the World Trade Organization (WTO). WTO membership will bring changes to a number of current regulations that have the potential to restrict entry of U.S. exports and investments.

Import licensing requirements protect Saudi industries. Foreign companies are no longer required to operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents, though this does not apply to defense-related imports. Saudi Arabia requires licenses to import agricultural products.

Saudi Arabia's pre-shipment inspection regime, known as the International Conformity Certification Program (ICCP), is claimed to protect Saudi Arabian consumers from inferior foreign products. The ICCP has elements that are viewed as barriers to free trade, such as an ad valorem-based fee schedule, and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

The Minister of Commerce has implemented a labeling requirement on all genetically modified (GMO) food products effective December 1, 2001, and banned the importation of GMO animal products. Therefore, if a product contains one or more genetically modified plant ingredients, the information is supposed to be clearly communicated to the consumer in the required label. The Minister also required that GMO imports be accompanied by a certificate issued by the producing country stating that the product was approved for consumption in the country of origin. These requirements are of special concern as the rationale for them is not clear, and they may unjustifiably restrict trade.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10 percent price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30 percent of the value in public works contracts to Saudi-owned companies. Many firms have reported that this has not been enforced consistently. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to government-owned companies, e.g., certain insurance and transportation services.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for approximately 65 percent of the private sector labor force. Large companies are required to increase their percentage of Saudi employees by five percent annually. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases with the growth in population. Many companies view these requirements as a disincentive to operating in Saudi Arabia and some companies have moved their operations elsewhere in the Gulf.

6. Export Subsidies Policies

Saudi Arabian planners say that there are no export subsidy programs for industrial projects. Because feedstock prices are relatively low in Saudi Arabia, industrial production of petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. On January 1, 1998, the Saudi government announced a 50 percent across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

Although legislation in Saudi Arabia to protect intellectual property rights (IPR) is generally sufficient, enforcement of IPR has been weak. Saudi Arabia has applied to join the WTO and is revising its intellectual property laws to make them conform with the WTO's Trade-Related Aspects of Intellectual Property (TRIPS) standards. Saudi Arabia remains on the Special 301 "Watch List," having moved from the program's "Priority Watch List" in 1996 in recognition of progress made in intellectual property rights' protection. Saudi Arabia has joined the Universal Copyright Convention, and is a member of the World Intellectual Property Organization (WIPO), though not a contracting party to any of the treaties administered by WIPO. Government efforts to protect intellectual property rights improved during 2001 as U.S. industries have played a more active role in working with the Ministries of Commerce, Information, and Interior on enforcement.

Patents: Saudi Arabia enacted a patent regulation in 1989 and established a patent office at the King Abdulaziz City for Science & Technology (KACST). The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is fifteen years, five years less than the international TRIPS standards. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons, on a wider basis than permitted under TRIPS. KACST is currently implementing a three-year action plan to bring its regulation into compliance by 2002. The Patent Office lacks adequate resources to carry out is work effectively. The office has received several thousand patent applications since 1989, but has only completed thirty-four of them.

The GCC established a parallel patent office in October 1998, which is expected to become the filing center of choice for the GCC member states. The GCC Patent Office issued its first patents in spring 2001. Revisions to the GCC patent law were approved at the GCC Supreme Council Summit in Riyadh in November 1999. Amendments to the implementing by-laws were approved in April 2000 and entered into force on August 15, 2000. These changes include extension of the term of protection from 15 years to 20 years (from the date of filing of the patent application with the GCC patent office), and the extension of protection to pharmaceutical products in all GCC states, including product and process protection.

Trademarks: Trademarks are registered at the Ministry of Commerce. The registration process is relatively uncomplicated, although some companies have complained that registration and search fees are high. Legal remedies for infringement of a trademark do exist, but enforcement of trademark protection has been inconsistent. It is estimated that from 25 to upward of 50 percent of all major brand consumer goods sold in Saudi Arabia are illegal copies. The Ministry of Commerce established a Fraud Control Department in spring 2001. The office has engaged in a number of raids and shop closures in Saudi Arabia and has begun an active publicity campaign.

Copyright: Saudi Arabia has indicated that it is in the process of amending the current copyright law to comply with the provisions of the TRIPS Agreement. The current level of enforcement has been insufficient to deter piracy. The most pressing problem in Saudi Arabia is unauthorized copying and sale of computer software. In some cases, the sales of unauthorized software copies exceed 90 percent market share. The Ministry of Information recently conducted a number of well-publicized raids and destruction of seized goods. However, overall enforcement still needs to be improved. Estimates of losses to U.S. copyright-based industries due to piracy in 1999 were $86.2 million.

8. Worker Rights

a. *The Right of Association:* Saudi regulations were amended in May 2001 to allow companies that employ more than 100 Saudi nationals to establish labor "committees." Only Saudis will be allowed to sit on these committees which are intended to provide Saudi workers a voice regarding working conditions, salaries, and work hours, as well as other relevant issues. Non-Saudi workers are not eligible to join these committees.

b. *The Right to Organize and Bargain Collectively:* Expatriates perform much skilled and almost all unskilled labor. Non-Saudi workers who seek to organize may be deported. In 2000, however, a number of "walk-outs" were held by foreign hospital, food processing, and construction workers to protest against non-payment of salaries. Similar actions took place in the summer 2001 in both Jeddah and Riyadh.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, employers have significant control over the movements of foreign employees, which sometimes gives rise to situations that involve forced labor, especially in the case of domestic servants or in remote areas where workers are unable to leave their place or work. Domestic workers still do not have legal rights under the Saudi labor law. During the past several years, the government has expelled many workers without proper work permits.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed 13 years of age shall not be employed." This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules.

e. *Acceptable Conditions of Work:* Labor laws limit the work week to 48 hours, including no more than eight hours a day and no more than five hours without a break for rest, prayer, and food. Laws require employers to provide health insurance to protect workers from job-related hazards and diseases and to pay time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. Although there is no legal minimum wage, the average wage generally provides a decent standard of living for a worker and family. While expatriate laborers come to Saudi Arabia because they can earn more than they could at home, there have been many reports of workers whose employers refused to pay several months, or even years, of accumulated salary or other promised benefits.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week, i.e. 44 hours, with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		218
Total Manufacturing		132
Food & Kindred Products	(D)	
Chemicals & Allied Products	53	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	-2	
Electric & Electronic Equipment	2	
Transportation Equipment	-21	
Other Manufacturing	74	
Wholesale Trade		109
Banking		(D)
Finance/Insurance/Real Estate		1,527
Services		297
Other Industries		(D)
TOTAL ALL INDUSTRIES		4,784

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.